

1 UNITED STATES BANKRUPTCY COURT
2 SOUTHERN DISTRICT OF NEW YORK
3 Case No. 05-44481
4 - - - - -
5 In the Matter of:
6
7 DELPHI CORPORATION,
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9 Debtor.

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11 - - - - -
12 (P.M. SESSION)
13 U.S. Bankruptcy Court
14 One Bowling Green
15 New York, New York
16
17 May 24, 2006

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19
20 B E F O R E:
21 HON. ROBERT D. DRAIN
22 U.S. BANKRUPTCY JUDGE
23
24
25

1 MOTION to Authorize Motion For Order Under 11
2 U.S.C. Section 1113(c) Authorizing Rejection
3 Of Collective Bargaining Agreements And Under

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4 11 U.S.C. Section 1114(g) Authorizing
5 Modification Of Retiree Welfare Benefits filed
6 by John Wm. Butler Jr. on behalf of Delphi
7 Corporation.

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24 Transcribed By: Sharona Shapiro

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1 P R O C E E D I N G S

2 THE COURT: Please be seated. Okay.

3 We're back on the record in Delphi Corporation
4 and, Mr. Sheehan, you're still under oath.

5 THE WITNESS: Yes, sir.

6 DIRECT EXAMINATION BY

7 MR. BUTLER:

8 Q. Mr. Sheehan, during your cross-
9 examination, you testified as to a press
10 release dated March 31st that went out
11 regarding a transformation plan. Do you
12 recall that testimony?

13 A. I do.

14 Q. Was that plan presented to the board of
15 directors of the company?

16 A. Yes, it was.

17 Q. Was the plan approved by the board before
18 that press release was issued?

19 A. Yes, it was.

20 Q. You were also examined this morning on
21 various aspects in connection with some of the
22 modeling that the company had done. Do you
23 recall some of that testimony?

24 A. I do.

25 Q. Do you recall a line of questions

8

1 regarding the company's performance during the
2 first quarter of 2006?

3 A. Yes, sir.

4 Q. Did the company over perform from its
5 first half operating plan or steady state
6 projections?

7 A. Yes, it did.

8 Q. And in what amount did it over perform,
9 approximately?

10 A. At the operating income level at
11 approximately -- or operating loss level of
12 approximately 500 million dollars.

13 Q. Now, is that taking into consideration or
14 not taking into consideration subsidies from
15 General Motors that had been put into the
16 business plan?

17 A. That does not take into con -- there was
18 no subsidies from -- excuse me, there was a
19 price-down that would otherwise have gone into
20 effect in the first quarter of 2006. That did
21 not occur and as a result you could look at
22 that as a subsidy.

23 Q. Looking just at the first half operating
24 plan for 2006, did the company plan any
25 additional subsidies from General Motors to be

1 received in connection with the first six
2 months of this year?

3 A. The first six half -- first six months of
4 the year, the first half operating plan
5 presumed or expected a 500 million dollar

6 subsidy from General Motors to start March 1st
7 of 2006.

8 Q. Was that subsidy received?

9 A. No, we have subsequently not been
10 collecting that amount.

11 Q. So when you talk of this overperformance
12 of 500 million dollars, does that include or
13 exclude the GM subsidy that had been planned
14 for the year -- for six months?

15 A. The performance that we achieved in the
16 first quarter excludes the subsidy. We did
17 not receive a subsidy from General Motors.

18 Q. And that 500 million dollars worth of
19 performance or overperformance, was that based
20 on global performance, North American
21 performance or some other kind of performance?

22 A. That's global performance.

23 Q. During cross-examination this morning,
24 you testified that in connection with your
25 modeling, you looked at the company globally

10

1 and then you split it down into two subsets.

2 What are those subsets, again?

3 A. Well, we generally look at our operations
4 between the North American operations and the
5 non-North American operations. That's how our
6 systems are really designed, combining our
7 U.S. and Mexican -- principally Mexican,
8 small amount of Canadian -- operations
9 together. We do have the ability to be able
10 to break apart the North American operations

11 into its components. But the system doesn't
12 do that for us quite so easily.

13 Q. Just to be clear, when you were talking
14 about the subsets, one was North America?

15 A. That's correct.

16 Q. And one was non-North America?

17 A. That's correct.

18 Q. During your testimony this morning, Mr.
19 Sheehan, you were asked a series of questions
20 about the portions of your declaration that
21 dealt with trade creditors. Do you recall
22 that testimony?

23 A. Yes, I do.

24 Q. Do you have a view as to whether or not
25 the prices that we pay our suppliers -- Delphi

11

1 pays its suppliers are competitive or not
2 competitive in the marketplace?

3 A. I believe in all instances that the
4 prices we pay are competitive.

5 Q. You might want to get a little closer to
6 the microphone.

7 A. Sorry.

8 Q. Would you restate your answer to that
9 question, please?

10 A. I believe that in all situations the
11 prices we're paying are competitive.

12 Q. So, when your declaration talks about
13 compromises -- and you testified this morning
14 there had been compromises of around 25
15 percent, is that your testimony?

16 A. That's correct.

17 Q. And so, those are compromises, from what
18 you've testified, were competitive pricing.

19 Is that correct?

20 A. Based upon the amounts that were
21 outstanding pre-petition that are not being
22 settled -- paid upon settlement, excuse me.

23 Q. During the course of your examination,
24 Mr. Sheehan, you were asked questions about
25 estimating proceeds from the sale of assets.

12

1 Do you recall that line of testimony?

2 A. Yes, I do.

3 Q. Do you plan to sell assets while in the
4 Chapter 11 case?

5 A. It is our intention to be able to sell
6 product lines, yes, or business lines.

7 Q. Are there assets that you think are not
8 saleable?

9 A. We do believe that certain of the assets,
10 the business lines, will not be saleable.

11 Q. Is there any defining criteria between
12 what would be saleable and not saleable?

13 A. I think that as it relates to saleable
14 versus not saleable, it will depend upon the
15 viability of production of that product in the
16 United States. There are just some products
17 that are inherently not going to be able to be
18 competitively manufactured in the United
19 States.

20 Q. Any factor other than whether something

21 is a competitive product?
22 A. Our ability to sell the business lines
23 will also depend upon the support of the
24 customer base and whether the customer or
25 customers are supporting the sale.

13

1 Q. In your own words, can you tell the Court
2 what you mean by "being supportive?"
3 A. One of the principal assets of the
4 business will be the book of business and that
5 book of business belongs to the customer.
6 And, therefore, to the extent that a customer
7 is not supportive of a transaction then, in
8 the long run, maybe in the short run too, that
9 customer will not be willing to continue to
10 source to our business line that we're trying
11 to sell. And as a result, the value of the --
12 there will not be value in the business there.
13 So any buyer of the business is clearly going
14 to want to understand that they have the
15 support of the customer and a book of business
16 that will be determinable.
17 Q. Do you have a view, Mr. Sheehan, as to
18 whether there is value to be extracted from
19 these businesses that are being held for sale
20 without the support of the specific customers
21 that are associated with each business?
22 A. I think that the value of the businesses,
23 if you don't have the support of the customer
24 base, is questionable.
25 Q. Mr. Sheehan, would you turn to Exhibit

1 135, please? Mr. Sheehan, during your cross-
2 examination, you were asked a series of
3 questions from a number of examiners about the
4 three plus nine forecast and about the steady
5 state and other models of the company. Do you
6 recall that examination from this morning?

7 A. Yes, I do.

8 Q. The document marked Exhibit 135, is this
9 the three plus nine forecast about which you
10 gave testimony?

11 A. Yes, it is. It is the presentation that
12 we made to the board of directors regarding
13 that forecast.

14 Q. Could you take a look at the entire
15 document? Is this the full presentation
16 presented to the board on this subject matter?

17 A. I believe it is.

18 Q. Mr. Sheehan, has the business modeling
19 that the company has undertaken since the
20 beginning of 2005 been under your direction?

21 A. Yes, it has. As well as our chief
22 financial officer, Bob Dellinger.

23 Q. During your examination this morning, you
24 were asked questions about many of those
25 models, I believe starting with the -- what

1 was called the base case to the lenders. Do

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2 you recall that?

3 A. I do.

4 Q. Just so we have some chronology in the
5 record, I'd like to walk briefly through those
6 models with you.

7 A. Okay.

8 Q. In your own words, will you please
9 explain to the Court what the base case model
10 was and what it was intended to do?

11 A. The base case was an updating of our 2005
12 business plan. We had prepared a business
13 plan in the fourth quarter of 2004 for the
14 years 2005, 2006 and 2007. And in the first
15 quarter of 2005, as the automotive industry
16 was changing and General Motors' production
17 volumes were changing dramatically, we found
18 ourselves in a situation where we were not
19 going to be able to maintain our unsecured
20 credit status and as a result, we engaged in
21 renegotiations with our banks.

22 In conjunction with that process in the
23 second quarter, we -- in recognizing that we
24 were going forward with a refinancing of the
25 business -- we updated the business plan from

16

1 the fourth quarter of 2005 and used that or
2 presented that to our banks in conjunction
3 with the refinancing.

4 Q. When did the refinancing close?

5 A. Approximately June 10th of 2005.

6 Q. Were there any other cases presented

7 to -- or models presented to the banks, prior

8 to the closing of that financing?

9 A. No, there were not.

10 Q. You were asked in testimony earlier today

11 about something called the downside case?

12 A. Yes.

13 Q. In your own words, will you tell the

14 Court, please, what the downside case is and

15 why it was created?

16 A. The downside case was created recognizing

17 that there was substantial risk that lay

18 within the U.S. automotive industry and that

19 the company needed to be able -- given those

20 unsettled circumstances and the company's

21 unsettled circumstances, that it needed to

22 understand if in fact performance was to

23 deteriorate, if General Motors' production

24 volumes, in particular, were to decline, if

25 the U.S. automotive sales rate was to decline,

17

1 if commodity costs increased, you know, in a

2 so-called downside scenario, what would that

3 mean for the company's financial situation and

4 then how would the company deal with that

5 matter. And it was something that, quite

6 honestly, we had not ourselves done, at that

7 point in time, and as has been documented or

8 discussed in this hearing, was something that

9 our financial advisors, as we moved into this

10 period, believed was an appropriate thing for

11 us to do.

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12 Q. And when was that downside case prepared,
13 generally?

14 A. It was prepared starting in the second
15 quarter and completed in the third quarter of
16 2005.

17 Q. Was that downside case presented to the
18 board of directors?

19 A. I believe it was discussed and presented
20 with the board of directors, yes.

21 Q. Do you recall, generally, a timeframe in
22 which that would have been presented?

23 A. I believe that would have been in the
24 late July 2005 timeframe, if I'm not correct.

25 Q. Now, in your testimony this morning, you

18

1 testified the company then moved on to the
2 steady state plan. Is that right? Or the
3 steady state scenario?

4 A. The company, at that time we didn't --
5 yes, that is correct.

6 Q. In your own words, can you describe to
7 the Court how the steady state scenario came
8 to being, what the purpose of it was and the
9 timeframe for its development?

10 A. The steady state scenario derived out of
11 our normal business planning process. So in
12 early third quarter, we developed a set of
13 instructions -- a set of assumptions and a set
14 of instructions to our operating divisions and
15 those instructions go out to the divisions
16 each year in the early August timeframe. The

17 divisions then submit their -- the business
18 plan information in the late September
19 timeframe at which point it is consolidated
20 and analyzed. We hold business plan reviews
21 with our divisions and run through it in the
22 completion of the business plan.

23 The -- given the situation as it was
24 unfolding in 2005 in the filing for
25 reorganization in October, what we instructed

19

1 the divisions to do was to prepare the
2 business plan without regard to any changes in
3 the labor agreements or any other changes that
4 might occur out of the strategic initiatives
5 that we were pursuing. And we determined that
6 we would then overlay the assumptions with
7 respect to those strategic initiatives at the
8 headquarters level. And so that's where the
9 name steady state came from. We had
10 instructed the divisions to prepare the
11 business plan on a steady state scenario.

12 Q. In your cross-examination this morning, I
13 think with Counsel for the USW, the steel
14 workers -- you conceded in that examination
15 that there were a variety of factors he asked
16 you about that weren't factored into the
17 steady state business plan or scenario. Do
18 you recall that testimony?

19 A. Generally, yes.

20 Q. Can you tell the Court, in your own
21 words, why it would have been that those

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22 things wouldn't have been factored into the
23 steady state scenario as opposed to some of
24 the other models?
25 A. For example, I think that there was

20

1 discussion about the attrition proposal and
2 other factors and at that point in time, when
3 we were preparing the plan, the steady state
4 model couldn't have contemplated those, as we
5 did not -- I mean, they weren't -- we weren't
6 developed enough in our strategic initiatives
7 with the unions.

8 Q. From a design perspective is the steady
9 state scenario, as opposed to the GM
10 consensual plan or the model or the
11 competitive benchmark model -- was the steady
12 state scenario, from a design perspective,
13 intended to comprehend changes to the
14 business?

15 A. No, it was not. It was to be a -- let me
16 call it a business-as-usual -- certainly it
17 was not usual from the perspective that it
18 wasn't viable -- but was to provide a baseline
19 upon which we then could model the impacts or
20 the effects of the strategic initiatives that
21 we were pursuing, labor and GM financial
22 support and sale or wind down of non-core
23 facilities. So it was to establish a baseline
24 upon which, then, modeling could be done to
25 determine the impacts that would come out of

1 the transformation process.

2 Q. What was the next modeling that the
3 company did?

4 A. Once the steady state was completed, we
5 then began to model differing assumptions.
6 For example, we had made the November 15th
7 labor proposal, and so we then overlaid
8 against the steady state plan -- we overlaid
9 those proposals that we had made.

10 So we overlaid the November 15th labor
11 proposal. We had discussions with respect to
12 General Motors' pricing. We overlaid that.
13 We overlaid the SGNA plan. We overlaid the
14 sale or wind-down of right side businesses to
15 develop a transformation model -- and I think
16 we, at that time, were calling that the
17 transformation plan.

18 As we progressed through the course of
19 early 2006, the -- and especially as we
20 developed other labor proposals that maybe
21 were not as immediate of a transformation as
22 the November 15th labor proposal -- at that
23 time it was called the next steps plan or the
24 zip code plan -- we needed to differentiate
25 the transformation plan. And that's how the

1 competitive benchmark, representing the
2 November 15th labor proposal, and the GM
3 consensual plan, representing the March 24th

4 labor proposal, got their names, if they will.

5 Q. Let's go back to the summer of 2005 one
6 more time. Was the base case and the downside
7 base case prepared by the divisions or
8 prepared by corporate?

9 A. Corporate. It was -- the base case and
10 the downside cases were corporate overlays
11 based upon developments since the time of the
12 preparation of the 2005 business plan in the
13 fourth quarter of 2004.

14 Q. And then the steady state scenario -- was
15 that prepared by the divisions or by
16 corporate?

17 A. It was prepared by the divisions. It was
18 a bottom-up exercise as opposed to a top-down
19 exercise.

20 Q. And that was part of your normal 2005
21 business plan, is that correct?

22 A. That's correct.

23 Q. And just looking back at 2005, at some
24 point in time during this chronology the
25 company circulated a model that was called

23

1 scenario C. Do you recall that?

2 A. Yes, I do.

3 Q. Can you explain to the Court, in your own
4 words, what scenario C was -- came into being,
5 what it was intended to represent?

6 A. Scenario C was one of our first modeling
7 or one of our first attempts to reflect what
8 the impact of a transformation to a

9 competitive wage and benefit package of our
10 North American or United States labor
11 agreements would be. And it used as its base
12 or as its starting point, the base case and
13 the downside case and then modeled on top of
14 it a set of assumptions with respect to a wage
15 and benefit transform -- a competitive wage
16 and benefit package that would be agreed
17 between the company and the unions.

18 Q. So first is base case, correct?

19 A. Yes, sir.

20 Q. Then what's next? Downside case?

21 A. Downside case, yes.

22 Q. Then next?

23 A. Scenario C.

24 Q. Then, next?

25 A. Would be the steady state scenario.

24

1 Q. And then the two transformation models,
2 correct?

3 A. That's correct.

4 Q. Okay. About when was the competitive
5 benchmark model completed? Rough timeframe is
6 fine.

7 A. Yeah. In the early first quarter of 2006
8 I think we did present information to our
9 board of directors. You know, I think it was
10 an iterative process. But in the December
11 board of directors meeting we did demonstrate
12 some financial information about the
13 transformation plan, as we called it at that

14 time. It wasn't yet called the competitive
15 benchmark. But it still continued to evolve
16 in the very early part of 2006.

17 A. And then the GM consensual plan, when was
18 that pretty much completed?

19 Q. The end of March, you know, during March
20 2006. We had -- again it was being referred
21 to early on as the so-called zip code plan or
22 the next steps plan and so it -- certainly I
23 would say financial modeling of the impact of
24 a slower transition to a competitive wage and
25 benefit package started in the February

25

1 timeframe. But in terms of being completed
2 and reviewed with the board, it was more in
3 the March timeframe, late March timeframe.

4 Q. Now how does Exhibit 135, how does that
5 three plus nine forecast fit into all of this?

6 A. Well, the three plus nine forecast is a
7 normal part of our operating -- our financial
8 processes. We reforecast the current year
9 four times a year in each of the four quarters
10 of the year. So we went through a normal
11 reforecasting process in the first quarter for
12 2006 and then, given the fact that we're in
13 this process and given that we are -- have
14 been discussing the transformation plan, we
15 then extrapolated those results -- or believed
16 we extrapolated the results out over the five-
17 year period of time.

18 Q. And the three plus nine forecast means

19 three actual plus nine forecasted for the
20 year?

21 A. That's correct.

22 Q. So the next forecast will be what, the
23 six and six?

24 A. We will start it in the middle of June
25 based upon what we call the five plus seven.

26

1 Q. So the next time you -- when would do it
2 -- when would the next one be?

3 A. Eight plus four.

4 Q. And when would that be normally
5 available?

6 A. That would be available in the mid-
7 September timeframe.

8 Q. And the next one --

9 A. Will be the twelve plus zero, you know.

10 At that point in time, we're also preparing
11 the business plan so it's in the mid-
12 December/January timeframe.

13 Q. If you turn to page 2 of Exhibit 135,
14 could you explain to the Court the reasoning
15 behind -- and by the way, were you responsible
16 for the preparation of this presentation to
17 the board?

18 A. Together with our CFO, Bob Dellinger. We
19 operate very seamlessly with respect to this
20 information because it effects both our
21 reorganization and the operations.

22 Q. Can you explain to the Court, in your own
23 words, why you chose to compare the three plus

24 nine forecast to the steady state? That's
25 what this page 2 does, isn't that correct?

27

1 A. That's correct. It compares it to the
2 steady state because in the first quarter of
3 2006 we have not yet achieved any of the
4 transformation overlays and, therefore, the
5 appropriate business plan to be comparing to
6 would be the steady state scenario.

7 Q. And how much of -- just explain -- the
8 cash impact of the change due to the positive
9 variances in the first quarter was how much?

10 A. The positive variance in operating result
11 was 512 million dollars in the first quarter.

12 Q. How much of that was cash?

13 A. I believe that if I'm not correct, it's
14 about 200 million of the 500. But I think the
15 cash impact is presented more for the full
16 year than necessarily the one quarter. But I
17 believe it's about the same.

18 Q. So the column on this, it says 2006 cash
19 impact, that adds up to 219 million and then
20 on to 252 million, that's really for the year?

21 A. Yes, sir.

22 Q. Got it. Page 3 is entitled, "2006
23 Operating Plan Performance." Can you explain,
24 in your own words, to the Court, this analysis
25 of the three plus nine against this?

28

1 A. This is the operating plan that was --
2 has been previously presented as part of the
3 KECP motion and the plan -- I'll use the word
4 approved -- not use the word -- it was
5 approved by our board of directors and
6 reviewed with our constituencies and it
7 includes the 500 million dollar subsidy from
8 General Motors that we were referring to
9 previously and demonstrates what we see the
10 performance to be in the first and the second
11 quarters.

12 Q. So as against this -- against the
13 operating plan performance which included a
14 plan subsidy, the improvement was only 123
15 million. Is that correct?

16 A. That is correct.

17 Q. So, in another way, to understand it
18 correctly, that the improved operating
19 performance meant that the GM subsidy really
20 wasn't required.

21 A. That is correct.

22 Q. Now, the next page of this three plus
23 nine analysis you've already, I think, talked
24 about, is the analysis against the steady
25 state variance for the five-year period. Is

1 that correct?
2 A. That's correct. As we extrapolated it
3 out based upon what we had seen in the first
4 quarter.

5 Q. And some of the numbers that are in your
6 affidavit and that was the subject of the
7 cross-examination, the variance analysis comes
8 from this report, does it not?

9 A. Yes, it does.

10 Q. And could you explain page 5 to the
11 Court, in your own words? What's that
12 intended to represent?

13 A. What we did is we looked at the expense
14 categories that were driving the variance
15 between the steady state scenario and the
16 three plus nine forecast out during this five-
17 year period of time. And then we sought to
18 determine whether that performance would carry
19 forward into the competitive benchmark and
20 consensual scenarios, recognizing that a
21 portion of the performance for the first
22 quarter drove from lower jobs and employee
23 costs, from lower pension and OPEB costs and
24 lower SGNA. And we recognized that those were
25 transformation initiatives that wouldn't

30

1 necessarily carry forward into the
2 transformation plans that we had developed.

3 Q. So why -- can you explain to the Court
4 again, just comparing, for example, operating
5 income from the steady state on page 4, the
6 variance there to the variance in the -- the
7 two variances in the competitive and
8 consensual scenarios. The three plus nine had
9 a positive variance and operating income in

10 the steady state of approximately 3.1 billion.

11 Is that correct?

12 A. Yes, sir.

13 Q. But it only had a positive variance of
14 about 750 million in the two other models. Is
15 that correct?

16 A. Yes, sir.

17 Q. Can you explain to the Court, in your own
18 words, why -- can you reconcile that
19 difference between the untransformed and the
20 transformed state of the company as to why
21 three plus nine had less influence on the
22 transformed state than on the nontransformed
23 state?

24 A. The two principal factors are the
25 elimination of the OPEB benefit in the

31

1 consensual -- competitive benchmark and
2 consensual -- the OPEB plan, in the
3 competitive benchmark and consensual scenarios
4 and therefore the positive performance that is
5 in the steady state plan that results from
6 OPEB and grows during the five-year period of
7 time does not carry into the competitive
8 benchmark and the consensual scenarios.

9 In addition to that, the positive
10 performance that we have versus the steady
11 state plan in the three plus nine forecast,
12 resulting from lower nonproductive employee
13 costs, or otherwise known as job costs and
14 1112 costs, will not carry forward into the

15 competitive benchmark and the consensual
16 scenarios because those scenarios assume that
17 the guaranteed employment provisions of our
18 current labor agreements are eliminated.

19 Q. Can you explain to the Court what page 6
20 is? You were asked questions about the
21 special attrition program in cross-examination
22 too. Could you explain to the Court, in your
23 own words, what the sixth page of this report
24 is intended to portray with respect to the
25 three plus nine analysis?

32

1 A. At the time that the attrition -- excuse
2 me, at the time that the three plus nine
3 forecast was put together, we had not yet
4 concluded -- or we were in the process of
5 concluding the attrition program, the special
6 attrition program with the UAW and, therefore,
7 what we sought to do was to overlay on top of
8 the three plus nine forecast, that excludes
9 any effects coming out of the attrition
10 program, what the earnings or income and cash
11 impacts from the special attrition program
12 would be.

13 Q. Looking back at page 5, the competitive
14 benchmark and consensual scenario variances
15 compared to the three plus nine -- Mr. Simon
16 asked you a question earlier, or examined you
17 earlier on the issue of potential pension
18 termination. Do you recall that line of
19 questioning?

20 A. Vividly.

21 Q. And let's assume, for a moment, that you,
22 in fact, could jump over all the legal hurdles
23 and terminate the pension.

24 A. Okay.

25 Q. So, take those out of your mind. My

33

1 question to you is, first, if you terminated
2 the pension, there'd be a savings of about 3.1
3 billion. Is that correct? Cash?

4 A. I think, yes, that's correct. That's
5 what we discussed this morning.

6 Q. My question to you, Mr. Sheehan, is would
7 the company still have to transform its
8 business or could it avoid transforming its
9 business if it terminated the pension?

10 A. It would still have to transform the
11 business.

12 Q. And could you explain to the Court, in
13 your own words, why that is the case?

14 A. We would still have to transform the
15 business. We would still need modification of
16 the -- our collective bargaining agreements as
17 the wages and benefits that are being paid
18 under those collective bargaining agreements
19 are not competitive. And our ability to win
20 business is directly attributable to having
21 all aspects of our business being competitive.
22 And when you look at the -- I'll call it price
23 penalty that certain of our customers, in
24 particular General Motors, pay, maybe

25 exclusively General Motors pays, as a result

34

1 of the collective bargaining agreements, that
2 can't continue indefinitely. And, therefore,
3 we've got to get the company to be able to
4 stand on its own competitively.

5 Q. Now Mr. Sheehan, most of these numbers
6 are presented in variance form. Is that
7 correct?

8 A. That's correct.

9 Q. Even with the three plus nine performance
10 improvements that are included in that, how
11 much money is Delphi still slated to lose in
12 2006?

13 A. They'll still lose approximately two
14 billion dollars of operating income, two and a
15 half billion dollars of net income -- net
16 loss.

17 Q. Mr. Sheehan, do you have any sense of
18 what the cost will be of implementing the
19 consensual scenario? Let's assume for a
20 moment that, in fact, we were able to reach
21 agreement with all the unions.

22 A. Um-hum.

23 Q. Buy-outs, buy-downs, all the various
24 elements of trying to put together a
25 consensual plan. Just in a very rough

35

1 ballpark frame, because I know you don't know

2 precise numbers, do you have any sense of what
3 the general range of the cost of implementing
4 that program will be, all in terms of moving
5 OPEB off, having it all taken care of the
6 summit. What would the total cost be? Do you
7 have any sense?

8 A. It would be, in our estimation, between,
9 in the consensual scenario, between 8 and 12
10 billion dollars.

11 Q. Does Delphi have 8 to 12 billion dollars
12 to spend on that project?

13 A. Not at the current time.

14 Q. Does it have the debt capacity to
15 generate 8 to 12 billion dollars to make those
16 payments?

17 A. Not in my opinion.

18 Q. You were asked earlier about -- in
19 examination, about whether there would be
20 sales proceeds, if you'd estimated sale
21 proceeds. Do you recall that testimony?

22 A. I do.

23 Q. All right. Let's assume, for a moment,
24 that the customers will support you so that
25 there will positive --

36

1 A. Proceeds.

2 Q. -- proceeds.

3 A. Yes.

4 Q. Okay. Do you have any, in your view, as
5 you sit here today, any view of how those
6 proceeds would be used?

7 A. I think the proceeds will be used to
8 offset the cost of the transformation and the
9 8 to 12 billion dollars that we just
10 discussed.

11 Q. Is there any scenario in which you
12 believe that there would be excess proceeds
13 available to the estate or for distribution?

14 A. I can't imagine that, given the cost of
15 transformation. And while we recognize that
16 some of the businesses will be saleable, I
17 can't imagine the proceeds being greater than
18 8 to 12 billion dollars.

19 Q. So while you're not sure, as you sit here
20 today, what the gross proceeds would be,
21 you've got a pretty good idea of what the net
22 proceeds would be. Is that correct?

23 A. The net proceeds will still be a cost to
24 transform the business. That's correct.

25 MR. BUTLER: Thank you. I have no

37

1 further questions.

2 THE COURT: Mr. Kennedy, are you
3 going to follow the same order?

4 MR. KENNEDY: No, I don't think we
5 are, Your Honor.

6 THE COURT: This is sort of --

7 MR. KENNEDY: This is catch as catch
8 can.

9 THE COURT: Okay, very well.

10 RE-CROSS EXAMINATION BY

11 MS. ROBBINS:

12 Q. Perhaps it's because I understood the
13 least that I have not a lot of questions but a
14 few things that came up on direct that I --
15 really made me need to clarify some things.

16 A. Please.

17 Q. When you talk about the competitive
18 benchmark scenario --

19 A. Um-hum.

20 Q. -- is that the steady state scenario with
21 adjustments made for the November 15th
22 proposal?

23 A. Not -- it includes -- yes, it includes
24 the steady state scenario adjusted for labor
25 with the November 15th labor proposal. There

38

1 are other adjustments, too.

2 Q. Well, that's what I wanted to clarify.

3 A. Sure.

4 Q. For example, if you were expecting to
5 seek concessions from General Motors in their
6 contracts with Delphi -- I'm not talking about
7 in relation to labor but just in terms of the
8 price you were getting for your product --
9 would that show up in the competitive
10 benchmark scenario?

11 A. No, ma'am.

12 Q. Okay. So if there is something other
13 than a --

14 THE COURT: Can I interrupt for a
15 second? I thought you had 500 million in
16 there.

17 THE WITNESS: In --
18 THE COURT: Because the competitive
19 benchmark is based on steady state which has
20 the extra 500 million, doesn't it?
21 THE WITNESS: The 500 million is
22 only in the operating plan, Your Honor --
23 THE COURT: Okay.
24 THE WITNESS: -- not in the steady
25 state plan.

39

1 THE COURT: All right. Okay.
2 THE WITNESS: Too many plans.
3 THE COURT: All right.
4 BY MS. ROBBINS:
5 Q. So, the only adjustments that were made
6 to the steady state scenario and the
7 competitive benchmark scenario are those
8 related to the concessions -- are those that
9 are based on the concessions you seek from
10 labor. Is that right?
11 A. No. There were other -- there are other
12 adjustments. For example, with respect to
13 General Motors, the competitive benchmark plan
14 recognizes that at such time that we have a
15 competitive wage and benefit package with our
16 U.S. labor unions, that the pricing of our
17 products with General Motors would be adjusted
18 also to market value and, therefore, there is
19 a reduction in revenue coming out of the
20 General Motors contracts. There is the SGNA
21 initiative. There is the wind down of the

22 right side businesses, so --

23 Q. Were there any adjustments that were not
24 related -- that were not a direct consequence
25 of the labor concessions you were seeking?

40

1 Are there any adjustments in the competitive
2 benchmark that are not related to the labor
3 concessions?

4 A. I guess, you know, if I take the
5 components of the overlays that are in the
6 competitive benchmark and I consider -- if you
7 were to consider the reduction in revenue from
8 General Motors as a direct result of having a
9 competitive wage and benefit package, if you
10 consider the winding down of the right side
11 businesses as a direct result of having the
12 authority to do so --

13 Q. Sir, excuse me, I didn't mean to cut you
14 off.

15 A. Last comment and I'll stop -- was that
16 the only one that I would say is not a direct
17 result is the SGNA initiative which I believe
18 the company will implement or seek to
19 implement regardless of our success in this
20 process. Sorry if it was too long.

21 Q. Is there some place where the adjustments
22 are listed?

23 A. In the --

24 Q. That is an exhibit in this case?

25 A. I will admit to not knowing all the

1 exhibits in this case so there are -- yes,
2 there are documents that demonstrate all of
3 the particular overlays which -- there are
4 documents that --

5 MR. BUTLER: Your Honor, just a
6 minute. The data room, to which all of the
7 parties have access, has this complete model
8 in it with all the supporting -- in fact, I
9 believe Exhibit Number 136 has the steady
10 state scenario and all the supporting
11 documentation for it leading into the next --

12 MS. ROBBINS: I apologize that we
13 had asked to be able to have guidance in how
14 to get two locations within -- I didn't want
15 to get into the data room. I mean, that's not
16 the purpose of this witness, Mr. Butler.

17 THE COURT: But, I mean, Mr. Butler,
18 is there some exhibit that has this or is
19 it -- is that --

20 MR. BUTLER: The steady state
21 scenario and supporting documentation is
22 Exhibit 136.

23 THE COURT: And does that have a
24 list of the assumptions?

25 MR. BUTLER: I believe that it does.

1 THE COURT: Okay.

2 MR. BUTLER: Can you guys help me on

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3 where the other models are, please?

4 BY MS. ROBBINS:

5 Q. To try to complete the line of thought,
6 Exhibit M and N, in your declaration, make
7 reference to the competitive benchmark.

8 A. Right.

9 Q. Can we assume that only the assumptions
10 that are in Exhibit 138 were used in those
11 documents?

12 MR. BUTLER: Your Honor, it might be
13 helpful, if this is really the kind of
14 questions that want to be asked, if we took a
15 five minute recess and tried to help get the
16 right exhibits together.

17 MS. ROBBINS: No. I was not
18 planning on examining on the --

19 THE COURT: Yeah. If she's not --

20 MS. ROBBINS: I was just trying to
21 get a clarification of what this was because
22 it got more confusing as we went along.

23 THE COURT: So that at a proper
24 point you can -- if that's not the correct
25 answer, if there's some other exhibit or some

43

1 other chart, you can let me know. But, if you
2 had planned to question him on that --

3 MS. ROBBINS: I was not planning,
4 Your Honor --

5 THE COURT: All right.

6 MS. ROBBINS: -- all I wanted to do
7 was ask Mr. Sheehan about Exhibits M and N and

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8 whether we can assume that the only
9 adjustments made to reach those charts are
10 those -- that basically we're talking about
11 the steady state plus the adjustments that are
12 listed in the exhibit that we're going to get
13 the number of.

14 A. I'll wait to answer to hear what the
15 exhibit is you're referring to 'cause I
16 apologize, I don't --

17 MS. ROBBINS: Maybe we're going to
18 need the recess, Your Honor. I'm sorry. I
19 apologize. I --

20 THE COURT: All right.

21 MS. ROBBINS: It seemed like --

22 THE COURT: I can give you five
23 minutes, but I just think --

24 MS. ROBBINS: -- a simple question
25 but we're going to have a messy record out of

44

1 it.

2 MR. BUTLER: I have the exhibit in
3 front of me, Your Honor. I just, you know,
4 can I have just a moment to consult --

5 THE COURT: Yes.

6 MR. BUTLER: Exhibit 96 has in it
7 steady state and then it takes you through the
8 steady state and then you have the competitive
9 benchmark essentials.

10 MS. ROBBINS: I'm not asking that.

11 I'm asking for a list of assumptions.

12 MR. BUTLER: I think they're in the

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13 presentations.

14 MS. ROBBINS: Well anyway, that's --

15 I mean --

16 MR. BUTLER: I can't help you then.

17 BY MS. ROBBINS:

18 Q. If you would look at Exhibit N, for a

19 moment, sir --

20 A. N?

21 Q. N.

22 A. From my declaration?

23 Q. In your declaration.

24 A. Yes, ma'am.

25 Q. Do you have it in front of you?

45

1 A. Yes, I do.

2 Q. Do these -- does this chart indicate what
3 we would expect to see if we used the steady
4 state assumptions and then we make two
5 adjustments; for one line, a freeze in the
6 pension plan and for the other line, no
7 contributions to the pension plan.

8 A. Not if you use the steady state scenario.

9 Q. Okay.

10 A. If I understood your question properly.

11 Q. Is there -- can you identify for me where
12 I would see a list of the assumptions that
13 were made to vary the competitive benchmark
14 from the steady state. I know we're back to
15 the same question but --

16 MR. BUTLER: There is, in

17 declaration, and in the testimony at the

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18 beginning of paragraph 59 and going on from 59
19 to 64 of his principled declaration, describes
20 each of the changes between the steady state
21 and the competitive benchmark. And paragraphs
22 65 through 70 describe each of the changes
23 between the steady state and the GM consensual
24 model. They're all listed out there in his
25 testimony.

46

1 MS. ROBBINS: Your Honor, I don't
2 know that I agree with Mr. Butler but I
3 accept. If the witness will accept his
4 testimony, then I will accept it and move on.

5 THE COURT: Well, no, 'cause I'm
6 curious about this too. Is there a financial
7 model?

8 THE WITNESS: Yes, there is.

9 THE COURT: And you have the steady
10 state financial model?

11 THE WITNESS: Yes, sir.

12 THE COURT: And then you have the
13 competitive benchmark financial model,
14 correct?

15 THE WITNESS: It derives -- that's
16 correct.

17 THE COURT: And in that model,
18 separate and apart from your affidavit, does
19 it list the assumptions that you're overlaying
20 on the steady state scenario?

21 THE WITNESS: Yes, sir.

22 THE COURT: Okay. And is that --

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23 when we use the word "model", is something

24 that's programmed into a computer?

25 THE WITNESS: I believe that's

47

1 correct, yes.

2 THE COURT: And is it -- so is it

3 printed out somewhere, including the

4 assumptions?

5 THE WITNESS: Yes, it is.

6 THE COURT: All right.

7 THE WITNESS: I mean, it can be.

8 It's a financial model. At least, you know,

9 for -- well, I can't speak --

10 MS. ROBBINS: I guess the best --

11 the bottom line is, is there a place that it's

12 written in English for us to understand it

13 without pulling apart a computer model.

14 That's really what I'm asking.

15 THE WITNESS: Yes, I believe there

16 is and I believe that we've been -- with due

17 respect, I know you don't have financial

18 advisors, but I believe we've been reviewing

19 that with the other unions' financial

20 advisors.

21 MR. BUTLER: And the specific -- you

22 know, again, I don't know how to say --

23 Exhibit 90, you know, I mean, we'll review the

24 exhibits. Exhibit 96 has all these things,

25 all the assumptions in it as you walk it

48

1 through. These are all the presentations that
2 were made. One of them's the creditors'
3 committee, walking them through each of the
4 basic assumptions on all these models and how
5 you get from one to the next. And Mr.
6 Sheehan's declaration describes it in English
7 and these presentations lay it out in graphic
8 form with the assumptions laid out. I mean --
9 and the models themselves were made available
10 and produced in connection with each of the
11 proposals.

12 MS. ROBBINS: Your Honor, I'll move
13 on. I don't find it as clear as Mr. Butler
14 says. But we don't need to, I think, prolong
15 this examination on that basis.

16 BY MS. ROBBINS:

17 Q. Sir, I have just a couple other
18 questions. And you mentioned that -- you said
19 it "costs" for the consensual proposal, 8 to
20 12 billion dollars. Is there anywhere, that
21 you're aware of, where that amount is
22 calculated?

23 A. There are certainly documents where we
24 have accumulated -- as I said a few moments
25 ago, I don't know all these exhibits and --

1 Q. You don't know where I would find that.
2 A. I do not.
3 Q. Okay. And when you say "8 to 12 billion
4 dollars," are you including in that figure the

5 wages that are paid for work?

6 A. I think what we're talking about was the
7 GM consensual model --

8 Q. Yes.

9 A. -- and what the costs there was.

10 Q. And I'm asking whether part of the 8 to
11 12 billion dollars is basic compensation paid
12 to workers for the work they perform?

13 A. No.

14 Q. No?

15 A. No.

16 Q. Does it include the benefits they receive
17 for the work they perform?

18 A. No.

19 Q. So, basically, you're not talking about
20 the concessions that you're seeking from the
21 unions here. You're talking about something
22 else?

23 A. Yes.

24 Q. You were asked some questions earlier
25 about terminating the pension plan. Do you

50

1 understand that employees who are covered by
2 the hourly pension plan, who do not have a
3 benefit guarantee, could be injured
4 substantially by termination of the pension
5 plan?

6 A. I do.

7 MS. ROBBINS: No other questions,
8 Your Honor.

9 THE COURT: Okay.

10 RE-CROSS EXAMINATION BY

11 MR. KENNEDY:

12 Q. I really do just have a few questions.

13 John, I want to try to get the timing down a

14 little better on the sequence of plans that

15 Mr. Butler was asking you about.

16 A. Sure.

17 Q. We know that the steady state plan was

18 essentially compiled in or around November of

19 2005? Is that correct?

20 A. Yeah. October, I would say.

21 Q. Okay. And then the competitive benchmark

22 scenario, when was that put together?

23 A. The competitive benchmark -- the

24 competitive benchmark scenario was prepared in

25 the December, late November/December

51

1 timeframe. At least it began then and it was
2 finalized in the January timeframe.

3 Q. And then the GM consensual proposal was
4 finished by mid-March of 2006?

5 A. Mid to late March, yeah.

6 Q. Is it accurate to state that the -- of
7 those three financial models, the one that
8 generated the highest amount of losses or
9 negative operating income for the company was
10 the steady state scenario?

11 A. That's correct, yes.

12 Q. And I noticed that in your statement
13 which you, I believe, signed -- and I'm
14 referring to Exhibit 5, on March 31st --

15 A. Um-hum.

16 Q. -- the scenario that you used to compare
17 the operating performance of the various
18 Delphi divisions, was the steady state
19 scenario, correct?

20 A. Yes, sir.

21 Q. And did you attempt to include
22 measurements of what the financial performance
23 of the various divisions would be under the
24 competitive benchmark or the GM consensual
25 scenarios in your statement of March 31st,

52

1 your declaration?

2 A. I described the -- the answer to that is
3 no and the reason for that is as I indicated,
4 we have not prepared the -- those two
5 scenarios at a division level. We have
6 prepared them at a company-wide level.
7 They're overlays to the plan.

8 Q. Okay. Can I see that? I'd like to
9 direct your attention to Exhibit 135, the
10 three plus nine document.

11 A. Um-hum.

12 Q. Do you have it?

13 A. Yes, I do.

14 Q. Just to make sure I understand how these
15 numbers work, if you look at page 4. Page 4
16 describes the steady state operating income
17 analysis and let's use 2008 as an example. It
18 indicates that under the steady state -- I
19 take it this is corporate-wide -- the negative

20 operating income is 1.5 billion?

21 A. That's correct.

22 Q. All right. And the variance that
23 resulted from the positive operating income in
24 the first quarter of 2006 resulted in that
25 negative number diminishing to a loss of 879

53

1 million in operating income corporate-wide in
2 2008, correct?

3 A. When considering the factors that led to
4 the diminished loss in the first quarter of
5 2006 and then extrapolating that over that
6 five-year period of time, on that period that
7 you're referring to, 2008, it is the 700
8 thousand dollar number -- 700 million dollar
9 number, yes.

10 Q. All right. So, then, if we just looked
11 at the steady state and corrected it for a
12 projection incorporating the first quarter of
13 2006, the actual amount of loss goes down to
14 879 million, right?

15 A. For the year 2008.

16 Q. The year 2008. All right. And if we
17 turn to page 6. Now as I understand it, page
18 6 overlays, again corporate-wide, the impact
19 of the attrition program that was negotiated
20 with the UAW. Am I correct in that?

21 A. This overlays the effect of the attrition
22 program on the -- that is correct, on the
23 three plus nine forecast.

24 Q. Okay. Now, just so I understand the

25 impact, the attrition program overlay, this

54

1 assumes basically all North America unions are
2 given the benefit of that attrition program?
3 Or is this just reflecting the fact that you
4 only have in place an agreement with the UAW?

5 A. I'm pretty sure it's all unions.

6 Q. It looks that way to me, too.

7 A. I'm pretty sure.

8 Q. So let's assume it's all unions for
9 purposes of this discussion.

10 A. I believe it is.

11 Q. And if there is a 75% take rate, the
12 presumed steady state operating income loss of
13 879 million dollars is reduced corporate-wide
14 to an operating income loss of 51 million
15 dollars, correct?

16 A. Yes, sir.

17 Q. And if there's a 100 percent take rate,
18 the steady state performance in 2008 is
19 assumed to be a positive 65 million dollars?

20 A. That's correct.

21 MR. KENNEDY: All right. I have no
22 further questions, Your Honor.

23 RE-CROSS EXAMINATION BY

24 MR. PETERSON:

25 Q. Briefly, Mr. Sheehan, I think you

55

1 testified that among the assumptions overlaid
2 onto the steady state scenario in connection
3 with the competitive benchmark was the
4 reductions and price-downs from General Motors
5 to account for reduced wage rates. Does that
6 sound right?

7 A. To account for that we would have a
8 competitive labor model, yes.

9 Q. In other words, General Motors is
10 currently paying more than it otherwise would
11 to account for the fact that Delphi is paying
12 higher wages.

13 A. That's correct.

14 Q. All right. How much more is General
15 Motors paying as a result of these wages?

16 A. I think General Motors has made
17 statements that, in its opinion, that it's
18 paying a wage premium of approximately two
19 billion dollars per year -- wage penalty, let
20 me use that word.

21 Q. So if you cut the wages then Delphi loses
22 the revenue also, correct?

23 A. I think that at such time that we have a
24 competitive wage and benefit package or wage
25 and benefit scale with our U.S unions that our

1 pricing with General Motors would also have to
2 be competitive, yes.

3 Q. You were asked a couple of questions
4 about the proceeds of sales --

5 A. Yes.

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6 Q. -- sales of operations --

7 A. Right.

8 Q. -- so that you could sell them, and I
9 just want to make sure I understood.

10 A. Um-hum.

11 Q. 'Cause Mr. Butler asked you about whether
12 you knew what the net proceed of the sales of
13 operation would be and you said it would be
14 negative. That's not exactly correct, is it?
15 I mean, you -- Delphi will receive a certain
16 amount of money --17 A. It will be used to offset the cost of the
18 transformation, that's correct.

19 Q. All of the transformation costs?

20 A. I believe all of its transformation
21 costs.22 Q. A certain percentage of Delphi's revenues
23 will have to be used to offset the
24 transformation costs, correct? You've got to
25 pay them from some source. Is that a fair

57

1 statement?

2 A. No, I don't think that's a fair
3 statement.4 Q. So, in other words, you won't have to pay
5 transformation costs if you don't sell
6 facilities?7 A. I think that the way that this line of
8 discussion went a little bit earlier was
9 discussing what the costs would be and whether
10 Delphi had 8 to 12 billion dollars and the

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11 answer was no, Delphi doesn't have 8 to 12

12 billion dollars and --

13 Q. But if you sell facilities, you'll get

14 closer to having 8 to 12 billion dollars,

15 won't you?

16 A. The party that funds the costs associated

17 with the 8 to 12 billion dollars will be the

18 beneficiary of the sales of those businesses

19 as it will go to offset the cost of those --

20 the cost of transformation.

21 THE COURT: Well, can I interrupt?

22 THE WITNESS: Yes.

23 THE COURT: Let's use a hypothetical

24 example. You have a plant that is not

25 profitable so it's in the group that you want

58

1 to sell.

2 THE WITNESS: Correct, non-core

3 facilities.

4 THE COURT: And it's a non-core

5 facility and you sell it.

6 THE WITNESS: Um-hum.

7 THE COURT: There are costs that

8 arise from shutting down the plant and/or

9 selling it.

10 THE WITNESS: Right.

11 THE COURT: Are you saying that --

12 when you say there won't be net proceeds, are

13 you looking at, specifically, the costs

14 created by the sale or shutdown of that plant

15 and, therefore, the proceeds from that sale

16 are basically going to eaten up by the plant's
17 disposition, one way or another? Or are you
18 saying something different, which is that the
19 transformation costs throughout the company
20 and whatever proceeds you receive would be
21 applied to those costs throughout the company?

22 THE WITNESS: Right. What we have,
23 not in the transformation model, Your Honor,
24 is we have not built into that the costs
25 associated with terminating the pension plan.

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1 And a party, assuming my number 8 billion
2 dollars of obligation, we have not built in
3 any costs associated with the transformation.
4 There is a party, I'll assume that's General
5 Motors, that is going to bear the costs
6 associated with the transformation. And,
7 therefore, what we have assumed in our
8 transformation model is that the costs
9 associated with the transformation of the
10 company will be in excess of any proceeds that
11 we would get from selling those non-core
12 businesses and, therefore, will only serve to
13 reduce the overall costs to that third party.

14 THE COURT: All right. But if you
15 aren't -- if you're not going on the GM
16 consensual model or the consensual model and
17 you sell non-core businesses --

18 THE WITNESS: Yeah.

19 THE COURT: -- is it your testimony
20 that there will never be any net proceeds from

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21 those sales?

22 THE WITNESS: It would be, Your
23 Honor, because -- well, no, I am sorry. I
24 apologize. No, if in fact we were to be able
25 to impose or to achieve the competitive

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1 benchmark scenario and there is no -- nobody
2 incurs any costs associated with that then
3 presumably there would be proceeds of --
4 proceeds from the sales which would be
5 available to, I'll use the word compensate,
6 that party that had been harmed by those
7 transformation costs. In other words, if the
8 union was to take a significant wage and
9 benefit reduction and General Motors didn't
10 fund that, the proceeds would be available to
11 the unions and Delphi wouldn't be keeping that
12 money.

13 THE COURT: Okay. All right.

14 THE WITNESS: Don't think that we're
15 trying to shelter anything here.

16 THE COURT: All right. All right.

17 Maybe it's a question of too many miles, but I
18 think we understand that.

19 BY MR. PETERSON:

20 Q. I think so. I mean, in my simple minded
21 way, if you sell something, you get money for
22 it, you've got the money. And if you chose to
23 allocate it somewhere else, that's another --
24 that's a separate transaction, if you will.

25 Although what you're suggesting is if GM kicks

1 in a lot of money, part of that would be an
2 agreement that they would get the net proceeds
3 of the sale. Or if GM didn't kick it in and
4 it comes out someone else's diet, your plan
5 would be to allocate the net proceeds of the
6 sales to that party.

7 A. We may have made a simplification
8 assumption that makes this confusing, but we
9 assumed that the costs associated with the
10 transformation would be in excess of any
11 proceeds from the sales of businesses and,
12 therefore, we would not include the cost of
13 the transformation nor the proceeds of the
14 business and under the assumption that a third
15 party was bearing that cost and, therefore,
16 would receive that benefit.

17 In my assumption here, I talk about
18 General Motors. But if the union is the chief
19 bearer of the liability, the proceeds from the
20 sales of the businesses would be theirs too.

21 Q. But the 8 to 12 billion cost is a gross
22 figure not a net of sales price, correct?

23 A. That's correct.

24 Q. Thank you.

25 RE-CROSS EXAMINATION BY

1 MR. SIMON:

2 Q. Maybe it's the hour. If the union bears

3 the cost of transformation then it will be the
4 beneficiary of the sale of the non-core
5 businesses? Is that an offer? I mean, how
6 does that work? How does the union reap the
7 benefit of the proceeds of the sale of the
8 non-core facility?

9 THE COURT: Well, let me ask it a
10 different way, maybe. In your models of the
11 competitive benchmark scenario, you're not
12 showing the company receiving the proceeds of
13 the sales of the non-core businesses, are you?

14 THE WITNESS: No, we are not.

15 THE COURT: So you're assuming they
16 go somewhere else, outside of the company?

17 THE WITNESS: That's correct.

18 THE COURT: And although this may
19 not have been identified in the papers, what
20 you're saying is that your assumption is that
21 it goes to the party who's contributing to the
22 competitive benchmark scenario, which is the
23 unions. Unless you're assuming it wasn't
24 going to the company.

25 THE WITNESS: It wasn't coming to

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1 the company, that's correct.

2 THE COURT: Okay.

3 BY MR. SIMON:

4 Q. Yeah, I'd just like to understand how it
5 gets to the union. You'll forgive me, I
6 represent a union. How does that money get to
7 the union?

8 UNIDENTIFIED SPEAKER: You write a
9 check for 8 billion dollars.

10 MR. BUTLER: That's what you were
11 asking.

12 BY MR. SIMON:

13 Q. How does that money get to the union?

14 A. If the union ends up, or its
15 constituencies end up foregoing their OPEB
16 benefit, then they have borne a cost and the
17 proceeds associated with the sales of those
18 non-core businesses would be available to
19 compensate them for that cost that they --

20 THE COURT: But that's not in the
21 proposals, is it?

22 MR. SIMON: I want to know where I
23 would find that in the 1113 proposal.

24 THE COURT: It's not in the November
25 proposal.

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1 MR. SIMON: Maybe treat that as an
2 amendment to your Section 1113 proposal? A
3 serious question.

4 MR. BUTLER: No, it's not a serious
5 question, Bruce.

6 THE COURT: I don't think he's --
7 he's testifying about his financial modeling.
8 I don't think he's authorized to submit it.
9 He's just saying he assumed the company didn't
10 get it, in his model.

11 BY MR. SIMON:

12 Q. Perhaps it will help if we put models to

13 the side for the moment and talk about real
14 life. What is the range of proceeds that you
15 project from the sale of your non-core product
16 lines or plants or sites or whatever it is
17 that you're going to be selling. Not now
18 offset by the cost of transformation. You
19 sell the sites. You've got a broker's fee.
20 You have closing fees. So, net of the
21 expenses directly associated with the sale of
22 those sites, what do you project the range of
23 proceeds to be?
24 A. It's not possible for me, at the current
25 time, to do that.

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1 Q. And the company has made no projection,
2 whatsoever, of the range of proceeds from the
3 sale of non-core facilities?
4 A. No, sir.
5 Q. What are the components of the 8 to 12
6 billion dollars of transformation costs? Can
7 you give us the component and the portion of
8 the 8 to 12 billion dollars it represents?
9 A. The by far and away largest portion of
10 the 8 to 12 billion dollars is the assumption
11 of the OPEB obligation or the termination of
12 the company's OPEB obligation which is an
13 approximately 8 billion dollar number all by
14 itself. And then, when Mr. Butler was asking
15 me, it was in relation to the GM consensual
16 model which calls for the wind-down or the
17 stepping down of the wage and benefit package,

18 too, of the U.S. hourly employees over a
19 period of time. And it's estimated that's
20 approximately 2 billion dollars cost over the
21 competitive benchmark scenario. And then,
22 finally, there will be costs associated with
23 winding down the right side businesses.

24 Q. I think, perhaps you've clarified it. So
25 that when you describe the costs of 8 to 12

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1 billion dollars for the implementation of the
2 transformation plan, you don't mean costs to
3 Delphi. In fact, you mean precisely the
4 opposite. You mean savings to Delphi,
5 correct?

6 A. I mean a cost to -- I agree with you I
7 don't mean costs to Delphi. I mean costs to
8 the constituencies to this Chapter 11 process.

9 Q. So that makes a bit of a difference. So
10 okay, so that's very helpful. So that the
11 transformation plan saves Delphi, assuming its
12 implementation, 8 to 12 billion dollars. And
13 in addition to that will bring in proceeds to
14 Delphi of some, you say, undetermined amount
15 of proceeds from the sale of non-core
16 facilities, correct? So Delphi gets it both
17 ways. It gets the savings and it gets the
18 proceeds.

19 A. No, sir.

20 Q. Pardon?

21 A. It is -- I think I've tried to be clear
22 here. You may not like how we put our model

23 together. I believe that the proceeds from the
24 sales of the non-core businesses, whatever
25 those proceeds will, be will be part of the

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1 estate which is shared with the parties that
2 bear the cost of Delphi's transformation.

3 Q. I'm sorry. You're telling us that your
4 model actually identifies that the
5 beneficiaries of the cost of your
6 transformation are going to receive the
7 proceeds of the sale of your non-core
8 businesses. That is ascertainable from your
9 model?

10 A. What is not included in the model is the
11 determination of the pension oblig -- the
12 termination of the OPEB obligation. That
13 liability is just eliminated off of the
14 balance sheet.

15 And there's no proceeds assumed from
16 General Motors as they fund the stepping down
17 of employee wages from the current competitive
18 level to -- sorry, the uncompetitive level to
19 a competitive level. Those proceeds are not
20 included in the model, nor is the proceeds
21 from the sales of the right side -- the non-
22 core businesses.

23 Q. I'm going to ask you, please, to restrict
24 yourself to your role as chief restructuring
25 officer and your various other titles for

1 Delphi and not to assume that you're speaking
2 for others, either the unions or General
3 Motors. I want to approach this from Delphi's
4 financial position and financial analysis.
5 And I want to ask you specific questions.

6 As a result of Delphi's implementation of
7 its transformation plan, Delphi will realize 8
8 to 12 billion dollars in savings, correct?
9 What it does with that savings, what someone
10 else may try to do with those savings, in
11 terms of your approach of Delphi's CRO, when
12 the plan is implemented, Delphi receives 8 to
13 12 billion dollars cost savings. Let's just
14 start with that grain. Is that correct?

15 A. Okay.

16 Q. Pardon?

17 A. Okay.

18 Q. Thank you. Now, let's move on, again
19 restricting yourself to Delphi. Delphi is
20 going to sell its non-core sites and
21 facilities, correct?

22 A. Yes, sir.

23 Q. The receipt of the proceeds of those
24 sales, in the first instance, is going to be
25 receipt by Delphi, correct?

1 A. Yes, sir.
2 Q. Now, I'd like to get a sense of your best
3 estimate, given your current role, of the

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4 range of proceeds from the sale of the non-
5 core facilities. Are we talking about --
6 let's do it easier -- tens of millions,
7 hundreds of millions, or billions of dollars?

8 A. Hundreds of millions.

9 Q. Are we talking about more than 500
10 million?

11 A. I can't be more specific than that.

12 Q. Is 500 million as good a guess as you're
13 able to come up with, sitting here today?

14 A. I don't want to speculate. Maybe I'll
15 try to clari --

16 Q. I'm sorry?

17 A. I'm sorry. I have to let him ask
18 questions.

19 Q. I'm sorry? But in any event, in the last
20 few minutes, we have identified somewhere
21 north of 8 billion -- between 8 and 12 billion
22 dollars in cost avoidance and some hundreds of
23 millions in dollars in sales proceeds received
24 by Delphi as a consequence of the
25 implementation of its transformation plan,

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1 correct?
2 A. The current plans don't represent the
3 recapitalization of the business either. And,
4 I believe that maybe that's where this issue
5 gets muddied here because I believe that in
6 conjunction with the recapitalization is where
7 this issue would be resolved.
8 Q. Would you help us understand that? What

9 do you mean by that?

10 A. I talk about the resolution of the claims
11 that will arise out of this Chapter 11 case --

12 THE COURT: No, but just going on
13 Mr. Simon's prior question. He asked you, the
14 transformation program will result in a
15 savings to Delphi of between 8 and 12 billion.

16 First of all, do you understand what he meant
17 by the transformation program? Is it the
18 November 15th program, or is it something
19 else?

20 THE WITNESS: This all drove off of
21 Mr. Butler's original question to me regarding
22 the GM consensual plan and what the costs
23 associated with the GM consensual plan would
24 be, so --

25 THE COURT: But there's a cost to GM

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1 we've established, right?

2 THE WITNESS: Yes, sir.

3 THE COURT: Okay. So, are the
4 savings to Delphi the ones that are set forth
5 in your declaration or is there something on
6 top of that?

7 THE WITNESS: I don't believe there
8 is something on top of that. If you want to
9 assume that GM will bear the cost of the
10 transformation and not get the proceeds of the
11 right side bus -- the non-core -- of the sale
12 of the non-core businesses, then I guess maybe
13 there is. But I doubt very much that that's

14 how this will play out in the end.

15 BY MR. SIMON:

16 Q. But you realize there are folks that
17 stand up at this podium from time to time that
18 take precisely that position, do you not?
19 That is to say that General Motors has no
20 claim or call upon any of the savings which
21 Delphi might realize as a consequence of these
22 proceedings. And you're simply handicapping
23 the likelihood of their success. Is that
24 correct?

25 A. I don't know. The model stands on its

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1 own.

2 Q. I'm sorry?

3 A. The model stands on its own in how we put
4 it together.

5 Q. On direct -- I'm sorry, on redirect, in
6 response to Mr. Butler's question, you
7 testified that even if you got past all of the
8 legal hurdles that Mr. Butler set up for you
9 and you could terminate, and in fact did
10 terminate, your hourly pension plans, the 3.1
11 billion in savings, you said, would not be
12 enough. Do you recall that testimony?

13 A. Yes, sir.

14 Q. And that Delphi would still have to
15 transform itself. Do you recall that?

16 A. Yes, sir.

17 Q. Are you saying that even if you had 3.1
18 billion in savings attributable to pension

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19 termination, you would still have the need for
20 the same level of labor cost modifications you
21 seek in this 1113 proceeding?

22 A. The -- if the only determ -- if only the
23 pension plan is terminated, then a -- there
24 would be a portion of the overall reduction
25 from the current wage and benefit package to a

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1 competitive level. But we still, ultimately,
2 need to get to a competitive level of 20 to 22
3 dollars an hour. And, presumably, if you
4 terminate the pension plan, then some other
5 component of the overall wage and benefit
6 package could be retained, but you got to get
7 to 20 to 22 dollars an hour at the end, to be
8 competitive.

9 Q. I'm sorry. Have you quantified what the
10 impact would be on Delphi's view of what it
11 needs to achieve by way of competitive wages
12 and benefits if it in fact received a 3.1
13 billion in savings, attributable to pension
14 termination?

15 A. No, I have not.

16 Q. Why not?

17 A. Because our current plan doesn't call for
18 that and we haven't modeled that.

19 Q. You are aware, are you not, that your
20 current 1113 proposal and plan, specifically
21 reserves the right to seek pension plan
22 termination, are you not?

23 A. I am.

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24 Q. And notwithstanding that specific
25 reservation, you have not gone to the trouble

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1 of calculating what the impact of those
2 savings would be on your 1113S?

3 A. No, sir.

4 MR. SIMON: No further questions.

5 RE-CROSS EXAMINATION BY

6 MR. FOX:

7 Q. Mr. Sheehan, good afternoon. Edward Fox,
8 again. Let me be very brief but I just want
9 to ask a couple of questions. If a vendor
10 supplies goods or services to the debtors, or
11 any of them, on a post-petition basis, it's
12 being paid 100 cents on the dollar, right?

13 A. For post-petition goods and services
14 they're being paid 100 cents on the dollar,
15 yes.

16 Q. Okay. In Exhibit 135, the three plus
17 nine forecast that Mr. Butler asked you about,
18 this forecast doesn't show any -- it was
19 prepared on a consolidated basis, correct?

20 A. Yes, sir.

21 Q. Okay. And it does not show any
22 liabilities that would be incurred by Delphi
23 Corporation if the competitive benchmark
24 proposal were implemented, correct?

25 A. No, it does not.

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1 Q. Now, with respect to the 8 to 12 billion
2 of costs or as Mr. Simon brought out, savings
3 to Delphi Corporation, if Delphi Corporation
4 is able to eliminate the OPEB costs prior to,
5 I guess it's October of 2007 when the benefit
6 guarantees expire, the unions who have the
7 benefit of those would be able to seek those
8 benefits from General Motors and in the case
9 of the UAW, GM would then be able to recover
10 back under the indemnification agreement with
11 Delphi Corporation the cost to GM of paying
12 the UAW, correct?

13 A. That, assuming that played out, yes.

14 Q. Well, under the way the documents exist
15 today, that's how it would play out, correct?

16 A. That's my general understanding.

17 Q. Thank you.

18 THE COURT: Well, has the company
19 done any present value analysis comparing
20 the -- well, let me back up. Your
21 transformation program projections show,
22 eventually, net income for the U.S. operations
23 that remain, correct?

24 THE WITNESS: That's correct.

25 THE COURT: Has the company done

1 a -- leaving Mr. Fox's question, assume for
2 the moment, leave aside potential objections
3 to GM's claims -- any present value
4 calculation of the claim that GM might have if
5 its guarantees were called upon in relation to

6 the present value of the positive income in
7 the North American operations that result from
8 the transformation plan?

9 THE WITNESS: In relation to the --

10 THE COURT: Well, you're proposing
11 to transform the U.S. operations rather than
12 just shut them down --

13 THE WITNESS: Right.

14 THE COURT: -- even though on an
15 outwardly basis they're losing money. The
16 basis for that is an assumption that at some
17 point in the future they'll start earning
18 money, albeit greatly reduced in the number of
19 facilities that are operating.

20 THE WITNESS: With a competitive
21 wage and benefit package.

22 THE COURT: Right. But there will
23 be a cost of that if you eliminate the OPEB
24 unless the GM -- GM's claim, segregation claim
25 is disallowed for some reason. Have you done

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1 any comparison of that cost as against the
2 actual savings -- not savings, actual benefit,
3 income --

4 THE WITNESS: I understand.

5 THE COURT: -- that is derived by
6 the North American operations as restructured?

7 THE WITNESS: I don't think you can
8 look only at the North American operations
9 because it's a global integrated operation.
10 So that to consider that you would shut down

11 the U.S. operations entirely is, I think that,
12 you know, I think you have to have some North
13 America -- United States presence. But,
14 specifically, we have not done that analysis,
15 no.

16 THE COURT: And I think you said
17 you've done an analysis of potentially what
18 the termination claim might be if the pension
19 plan were terminated?

20 THE WITNESS: We know what the
21 termination liability of the plan is and the
22 PBGC has publicly announced that.

23 THE COURT: And what is that?

24 THE WITNESS: For the hourly --

25 THE COURT: What had they announced

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1 for the hourly plan?

2 THE WITNESS: For the hourly pension
3 plan, it's approximately 10 billion dollars.

4 THE COURT: How much?

5 THE WITNESS: 10 billion dollars.

6 THE COURT: I guess if you shut down
7 the North American operations completely,
8 there'd be a serious question of whether you'd
9 continue the pension plan.

10 THE WITNESS: I think that would be
11 a fair assumption.

12 THE COURT: Okay. Okay. Do you
13 have a question, Mr. Kurtz? Can I -- I'm
14 sorry. I --

15 UNIDENTIFIED SPEAKER: I'm sorry. I

16 got one here.

17 THE COURT: In response to one of
18 Mr. Butler's questions, I think you said that
19 in 2006 the company is still projecting a 2.5
20 billion dollar net loss and a 2 billion dollar
21 operating -- negative operating income. Is
22 that right?

23 THE WITNESS: Yes, sir.

24 THE COURT: And projecting under
25 what scenario?

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1 THE WITNESS: Under the steady state
2 scenario.

3 THE COURT: Okay.

4 THE WITNESS: You can see that on
5 page 4 of Exhibit 135.

6 THE COURT: All right. And how much
7 of that is attributable to pension
8 contributions?

9 THE WITNESS: I only have the
10 amount, in total, between pension and OPEB on
11 page 2 --

12 THE COURT: Okay.

13 THE WITNESS: -- Exhibit 135, in
14 2006 is 116 million dollars.

15 THE COURT: Okay. Okay. Thank
16 you.

17 MR. BUTLER: Your Honor, I just have
18 one question.

19 RE-DIRECT EXAMINATION BY
20 MR. BUTLER:

21 Q. On the sale proceeds there was a lot of
22 colloquy up here about proceeds on other than
23 the GM consensual model. Mr. Sheehan, do you
24 recall that discussion?

25 A. Yes, I do.

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1 Q. Do you have a view as to whether there'll
2 be any material proceeds from the sale of the
3 right-hand, side businesses without GM's
4 support?

5 A. No, we have to have GM's support. The
6 book of business is the most valuable asset
7 that those businesses have.

8 Q. So assume there's no -- assume that GM is
9 not being consensual with Delphi, for a
10 moment, therefore there is no GM consensual
11 plan or something approaching it, all right?

12 A. Yes, sir.

13 Q. And assume, for a moment, that Delphi
14 prosecutes its GM contract rejection motion to
15 completion and imposes relief.

16 A. Okay.

17 Q. Do you believe that the right-side
18 businesses are salable, those that have been
19 declared non-core businesses are saleable?

20 A. No, sir. We will not have General
21 Motors' support at that point in time. Then
22 the book -- there will be no book of business
23 to sell.

24 Q. And do you believe there will be costs

25 incurred with shutting down those businesses?

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1 A. Substantial costs incurred in shutting
2 down those businesses, yes.

3 Q. Does that include, for example, all the
4 environmental costs associated with all those
5 manufacturing facilities?

6 A. We have many contracts that would have to
7 be broken and -- at that point in time.

8 Q. And who would bear those costs?

9 A. The company.

10 MR. BUTLER: No further questions,
11 Your Honor.

12 THE COURT: Okay.

13 RE-CROSS EXAMINATION BY

14 MR. SIMON:

15 Q. Just one. And if you pursued your GM
16 motions to their conclusion and therefore lost
17 General Motors' support, and if you pursued
18 the 1113 motions to their conclusion and
19 implemented -- forget about whether you would
20 have a plan, would you have a company, Mr.
21 Sheehan?

22 MR. BUTLER: Objection. Outside of
23 redirect, Your Honor. He's editorializing
24 here. It's outside of redirect.

25 MR. SIMON: I think it's a real

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1 question.

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2 THE COURT: I think it's rhetorical,
3 though.

4 MR. SIMON: That doesn't mean it's
5 not a real question.

6 MR. BUTLER: I think that's the last
7 question for Mr. Sheehan.

8 THE COURT: All right. You can step
9 down, sir.

10 MR. BUTLER: Your Honor, you asked
11 in our colloquy during the lunch hour -- you
12 asked the debtors to make a judgment about, as
13 we approached this hour, whether we could get
14 another witness on prior to 6 o'clock and
15 complete it. The answer to that question is
16 no --

17 THE COURT: Okay.

18 MR. BUTLER: -- after having
19 consulted with some of the cross-examiners who
20 plan cross-examination of Mr. Weber, the next
21 witness. So, I think this is the appropriate
22 time, probably, to conclude today.

23 Our next hearing date is on Friday
24 and we wanted to get -- to the extent your
25 Your Honor is going to give us guidance --

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1 guidance towards a starting time and an ending
2 time.

3 THE COURT: I can start again at 9
4 and, you know, again, depending on the order
5 of the witnesses, I can go till 7.

6 MR. BUTLER: Okay. Your Honor, I

7 also --

8 THE COURT: But that's within the
9 control of the parties. They may want to
10 break for settlement discussions at 12 if they
11 want to get away for the long weekend, so --

12 MR. BUTLER: Your Honor, I think the
13 other thing that we had spoken at a meet and
14 confer at lunch with the parties regarding the
15 calendar for next week. We are already
16 scheduled for June 2nd and 5th. There is the
17 May 30th date which is an omnibus hearing
18 date. We have moved most of the things off
19 that omnibus date. There is a clear lack of
20 enthusiastic support for book ending the
21 Memorial Day weekend with hearings here. We
22 wanted to proceed.

23 And the concern we have, and I'll
24 just say on the record, that at the pace we're
25 going, where Mr. Sheehan had over 500

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1 questions asked of him today, we're going to
2 need more trial days if this is going to be
3 the pace of cross-examination. I'm not
4 questioning it. People need to do what they
5 need to do to put their cases in. But we do
6 have a need to move this forward in some
7 reasonable pace under the statute. And so, if
8 the parties are not prepared to entertain May
9 30th, if Your Honor's not prepared to
10 entertain it, I think we're going to need to
11 begin search for additional trial dates.

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12 THE COURT: I mean, I'm free on the
13 30th, so I could do it then. I have time.

14 MR. BUTLER: The debtors are
15 prepared, Your Honor, to go forward on the
16 30th if Your Honor wants to proceed on that
17 date. I think Mr. Kennedy and some other
18 counsel advised me that they would oppose
19 that. But I wanted to --

20 THE COURT: Okay. All right.

21 MR. KENNEDY: Well, it's just a
22 question of other things being scheduled, Your
23 Honor. I know how important this trial is.
24 We're certainly happy to work --

25 THE COURT: Well, that's a fair

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1 point. This -- the 30th had not originally
2 been a trial date, right?

3 MR. KENNEDY: No. That's correct,
4 sir.

5 THE COURT: If people have other
6 scheduled matters, and that includes vacation
7 matters, I understand that. You weren't going
8 to come to the omnibus day.

9 MR. KENNEDY: I certainly wasn't,
10 Your Honor --

11 THE COURT: So if the reason for not
12 wanting to continue the trial on the 30th is
13 that people had other commitments that had
14 been booked before -- before the notion of
15 doing this on the 30th as opposed to the
16 omnibus day, then I understand. Then I

17 wouldn't have it on the 30th.

18 MR. BUTLER: I'll check and see if
19 anyone has those kind of commitments, Your
20 Honor.

21 THE COURT: Okay. All right.

22 MR. BUTLER: So, we'll be back at 9
23 o'clock on Friday.

24 THE COURT: That's fine.

25 MR. BUTLER: Thank you, Your Honor.

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1 MR. BUTLER: See you then.

2 THE COURT: My clerk reminds me --
3 with regard to our view exhibits, I have this
4 room tomorrow but it's an odd combination of
5 Ucose and Chapter 13 days so I don't think you
6 want your stuff all over the courtroom. But
7 if you can put it in a corner or something
8 like that, that's fine.

9 MR. BUTLER: Thank you, Your Honor.

10 THE COURT: Okay. So I'll see you
11 at 9 on Friday.

12 (Time noted: 4:57 PM)

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1 C E R T I F I C A T I O N

2 I, Sharona Shapiro, hereby certify that
3 the foregoing is a true and correct
4 transcription, to the best of my ability, of
5 the sound recorded proceedings submitted for
6 transcription in the matter of:
7 Delphi Corporation.

8

9 I further certify that I am not employed
10 by nor related to any party to this action.

11

12 In witness whereof, I hereby sign this
13 date:
14 May 29, 2006.

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16 _____

17 Sharona Shapiro

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